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Review of major recommendations of
the Grace Commission.

(Discussion paper no. 31)

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Office of the
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DISCUSSION PAPER NO. 31

REVIEW OF MAJOR RECOMMENDATIONS

OF THE GRACE COMMISSION

By John O'Brien

and Paul Ward

June 1984

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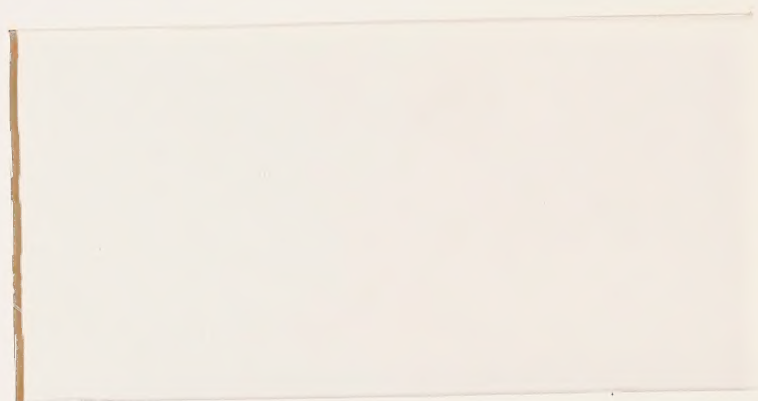
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Review of Major Recommendations
of the Grace Commission

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REVIEW OF GRACE COMMISSION PROPOSALS POSSIBLE APPLICATION TO CANADA

Introduction

The purpose of this document is to summarize the major cost saving recommendations of the President's Private Sector Survey on Cost Control (PPSSCC). The recommendations are often applicable to Canadian government departments and agencies. The suggestions of the Commission may provide lines of audit enquiry for comprehensive audits.

The Commission, known as the Grace Commission after its chairman, made a total of 2,478 recommendations that it claims would result in net savings, and revenue increases of \$424.4 billion over 3 years. An additional cash flow saving of \$65.5 billion over 3 years is also expected.

The basis of our review is a joint Congressional Budget Office (CBO) /General Accounting Office (GAO) analysis of the major Grace Commission recommendations. The CBO/GAO analysis focuses on only 400 recommendations but those recommendations form 90 per cent of the savings estimated by the Grace Commission. The criteria for inclusion in the CBO/GAO study was that a recommendation should result in estimated savings of \$1 billion or more over three years.

The results of the GAO/CBO analysis are less optimistic than the Grace Commission. For these 400 recommendations the GAO/CBO concludes that there

are potential 3 year savings of \$90 billion or approximately \$200 billion less than the Grace estimates. In addition the recommendations that account for the bulk of projected cost savings require significant changes in government policy or legislation. Recommendations involving management improvements made up the majority of the recommendations but only a minority of cost savings.

The GAO/CBO summary is grouped into five policy areas - National Defence, Entitlement and Other Mandatory Spending Programs, Non-Defence Discretionary Spending and Offsetting Receipts, Federal Civilian Compensation and Work Force Management and Revenues. In order to relate the recommendations to the Canadian government, this paper has been organized along envelope lines. For each envelope there is a brief overall summary of the recommendations followed by a more detailed description. In the detailed description page references are given to the Congressional Budget Office/General Accounting Office study entitled "Analysis of the Grace Commission's Major Proposals for Cost Control" for those interested in more details on specific recommendations.

General Conclusions

The most obvious conclusion from this review of the Grace Commission recommendations is that the projected savings are often wildly optimistic. Since the Commission did not follow rigorous standards of evidence their estimates are often "best guesses" of the potential savings. In some cases these estimates are nothing more than a flat percentage of a program's expenditure with no further explanation of the rationale.

Another general observation is that the Commission has not fully explored the effects of its recommendations on the recipients or beneficiaries of programs. For example the consequences on military preparedness and effectiveness of the recommendations is not known. In many cases the recommendations will have a significant negative impact on people near the poverty line.

Many of the highest impact recommendations will require legislation or changes of long standing policies. Four recommendations in this category - reduced military retirement benefits, reduced civil service retirement benefits, limiting growth in health care costs to the GNP and taxing federal subsidies account for \$145.9 billion in estimated savings according to the Commission. These items can be expected to generate a great deal of controversy among the affected parties. It is questionable if the political will exists to implement these changes.

Despite these significant limitations, many of the Commission's recommendations have valid and appropriate elements and could result in significant savings. Even the highly controversial items present a basis for debate and could represent the initial basis of a solution.

Area Summary

National Defence

The Grace Commission recommendations affecting National Defence fall into three categories:

- reduced benefits to military personnel;
- changes in contracting or procurement methods; and
- changes in management systems or procedures.

The recommendations affecting benefits to military personnel include revision of military retirement pay, changes in the operations of military commissaries, reduced use of civilian health care services for military personnel and recovery of medical costs from private insurers. The Grace Commission estimates three year savings from these recommendations at \$33 billion. Largely because the Grace Commission included the accrued savings of reduced retirement pay, the CBO/GAO estimate of savings is considerably lower at \$3 billion.

While the GAO believes that the recommendations have some validity, they will likely affect recruitment and retention of personnel. The health care recommendations may result in reduced quality of care for retirees and dependents.

There are many recommendations affecting military contracting and procurement. These are revise contract financing policy, increase use of multi-year procurement, establish and maintain efficient weapons production rates, increase use of common parts and standards, increase dual-sourcing of weapons programs, improve army weapons systems acquisition, improve procurement process management and establish a procurement audit service for weapons acquisition. In all the Grace Commission estimates that these recommendations would save \$49.3 billion over three years. The CBO/GAO study found that only the revision of contract financing could be estimated (\$6 billion). The impact of the remaining recommendations could not be estimated.

Many of these recommendations would have some applicability but because Canadian procurement is much smaller the impact would be less.

The changes in management systems and practices recommended are to consolidate or close bases, improve automated inventory management, change physical inventory management, improve management of laboratories, improve long-range planning and management for research and development, reduce oversight of contractors' research and development costs and revise financial accounting and management. The Commission places three year savings for these recommendations at \$25.3 billion. The GAO/CBO found all of these recommendations too vague to estimate potential savings.

Overall, the Canadian Department of National Defence undertakes many of the functions of the United States armed forces but on a much smaller scale. Consequently, many of these recommendations could be valid in Canada.

Review of Major Grace Commission Recommendations - National Defence

Estimated Savings - 3 Years

Title of Recommendation	Description	Grace Commission	G/NO/CBO	Comments - CBO/GAO	Implementation	Applicability to Canada
Revision of Military Retirement Pay (pg. 35)	<ul style="list-style-type: none"> - begin providing full annuities at age 62 rather than date of retirement; - base annuity on highest 5 years of base pay; - lower retirement credit from 2.5% per year of service to 2.1%; - reduce retirement pay by share of Social Security Benefits attributable to military service; - reduce cost of living allowance; - introduce annuity at age 62 for those who serviced 10 to 19 years (who now receive nothing). 	\$28.1 billion	\$0.5 billion	<ul style="list-style-type: none"> - Proposals ignore impact on military manpower management, force profiles and other personnel costs - i.e., will reduce proportion of career personnel and experience level of active-duty force; - CBO/GAO estimates done on the basis of budget outlays rather than accrued costs; accrued savings from 1983-87 is estimated at \$22.7 billion. 	Requires legislation	National Defence
Revise Military Commissary Operations (pg. 39)	<p>2 alternatives:</p> <p>a) close all commissaries in continental US and allow PX system to offer full food line where facilities don't exist or;</p> <p>b) operate non-competitive food commissaries privately.</p>	a) \$1 billion	a) \$1 billion	- valid alternative but may impact military retention leading to higher recruiting costs	Change administrative procedures	National Defence

Review of Major Grace Commission Recommendations - National Defence

Estimated Savings - 3 Years

Title of Recommendation	Description	Grace Commission	GAO/CBO	Comments - CBO/GAO	Implementation	Applicability to Canada
Reduce use of Civilian health care services for military personnel (pg. 41)	<ul style="list-style-type: none"> - require such beneficiaries within 40 miles of a military hospital to use that facility rather than be reimbursed for private care 	\$1.2 billion	\$0.8 billion	<ul style="list-style-type: none"> - military hospitals have varying ability to provide full range of service/may be additional marginal cost in treating more patients - some risk of degrading the quality of care 	Change administrative procedures	National Defence
Recover Medical Care costs from Private insurers (pg. 44)	<ul style="list-style-type: none"> - if an individual, covered by private medical insurance, uses a DOD hospital recover expense from insurer (i.e., retirees and dependents) 	\$1.2 billion	\$0.7 billion	<ul style="list-style-type: none"> - lower estimate of No. of patients with insurance coverage and lower estimate of % payment by insurers by CBO/GAO - small increase expected in all policy holder's premiums 	Requires legislation	National Defence
Remove Restrictions on sale of Silver stockpiles (pg. 47)	<ul style="list-style-type: none"> - reduce excess silver from strategic stockpile (sell 105.1 million tray ounces) 	\$1 billion	\$0.1 billion	<ul style="list-style-type: none"> - savings will eventually total \$1 billion over a much longer period (sell 4 million ounces/year) - immediate large sale would depress market 	Requires legislation	National Defence

Review of Major Grace Commission Recommendations - National Defence

Estimated Savings - 3 Years

Title of Recommendation	Description	Grace Commission	GAO/CBO	Comments - CBO/GAO	Implementation	Applicability to Canada
Revise DoD Contract Financing Procedures (pg. 50)	3 steps: 1) review contract pricing, profit and financing policy and simplify the process 2) establish a data base management system for acquisition policy analysis 3) reduce cash progress payment rates on fixed price contracts to previous levels; establish contractor investment in work-in-process at 15%	\$1.7 billion	\$6.0 billion	- contractors will likely demand higher prices or changes in other terms and conditions - cost savings come from reduced financing charges on slower payments	Executive Branch order	National Defence
Increase use of Multi-year Procurement (pg. 53)	- increase No. of contracts to meet requirements for more than 1 year	\$6.6 billion	(A)	- no specific purchases were identified; commission applied a 7.5% estimated saving across entire procurement budget - DoD now uses multi-year procurement for a wide variety of purchases	Legislation needed for any extension	National Defence

(A): Recommendation not sufficiently specific for GAO/CBO to estimate impact.

Review of Major Grace Commission Recommendations - National Defence
Estimated Savings - 3 Years

Title of Recommendation	Description	Grace Commission	GAO/CBO	Comments - CBO/GAO	Implementation	Applicability to Canada
Establish and Maintain Efficient Weapons' Production Rates (pg. 56)	<ul style="list-style-type: none"> - produce at or near the economic rate reduces total acquisition cost: o ensure weapons are affordable before purchase o create a reserve fund for financial emergencies and prevent production "stretch-outs " o use a 2 year budget cycle o stabilize and better integrate PPBS o provide best cost estimate for entire weapons acquisition cycle o establish an audit trail between estimates and final cost o reprogram funds from low priority to high priority items o determine cost effects of stretch-outs 	\$18.3 billion	(A)	<ul style="list-style-type: none"> - Commission assumed cost reductions of 2% to 10% without identifying systems - appears to be duplication in estimated savings - limited funds reduce ability for all systems to be produced at the most economical rate - extending production maintains defence industry base 	Some actions require legislation	National Defence

(A): Recommendation not sufficiently specific for GAO/CBO to estimate impact.

Review of Major Grace Commission Recommendations – National Defence

Estimated Savings – 3 Years

Title of Recommendation	Description	Grace Commission	GAO/CBO	Comments – CBO/GAO	Implementation	Applicability to Canada
Increase use of Common Parts and Standards (pg. 61)	<ul style="list-style-type: none"> - increase use of common parts and equipment - make greater use of parts and equipment designed to commercial rather than military standards 	\$7.3 billion	(A)	<ul style="list-style-type: none"> - commission assumed savings of 4.8% on all weapons systems - commission did not provide information to assess validity of estimate - commercial standards would increase defence base but may reduce military preparedness 	Implement on Secretary's authority	National Defence
Increase Dual-Sourcing of Weapons Programs (pg. 64)	<ul style="list-style-type: none"> - divide production among 2 or more suppliers to increase competition and reduce costs; o develop a method to identify and evaluate dual-source candidates o evaluate procurement programs for suitability to dual-sourcing o If effective, provide funds and revise regulations to allow it 	\$3.4 billion	(A)	<ul style="list-style-type: none"> - Commission found insufficient historical data to determine past savings - Commission applied general percentages to budgets but gave no further justification 	Requires amended legislation	National Defence

Review of Major Grace Commission Recommendations – National Defence

Estimated Savings – 3 Years

Title of Recommendation	Description	Grace Commission	GAO/CBO	Comments – CBO/GAO	Implementation	Applicability to Canada
Improve Army Weapons Systems Acquisition (pg. 67)	<ul style="list-style-type: none">- develop acquisition strategies that emphasize near-term planning- remove unrealistic estimates when planning and explain cost variances- required qualified program managers early in the acquisition cycle- hire experts in starting up new systems and separate procurement and production functions	\$2.6 billion	(A)	<ul style="list-style-type: none">- proposals are too general to estimate savings- 72% of savings based on reduced acquisition rather than increased efficiency - no estimate of effect on readiness	Administrative authority	National Defence
Improve Procurement Process Management (pg. 70)	<ul style="list-style-type: none">- develop comprehensive and detailed acquisition plans- select lowest bids and strengthen monitoring of subcontractor's estimates- produce "most likely" cost estimates and get early warning of cost growth- improve program management with increased authority, support and quality of personnel.	\$7.8 billion	(A)	<ul style="list-style-type: none">- commission estimated 7% savings on all major procurement	Administrative authority	National Defence

(A): Commission recommendations not sufficiently specific for GAO/CBO to estimate impact.

Review of Major Grace Commission Recommendations - National Defence

Estimated Savings - 3 Years

Title of Recommendation	Description	Grace Commission	GAO/CBO	Comments - CBO/GAO	Implementation	Applicability to Canada
Establish a procurement Audit Service for Weapons Acquisition (pg. 73)	<ul style="list-style-type: none"> - establish an internal audit service to examine internal control for procurement, research, development testing and evaluation 	\$1.6 billion	(B)	<ul style="list-style-type: none"> - increased audit should lead to improved acquisition and savings - no valid method of estimating savings 	Already established	National Defence
Modernize Contractors' facilities and enhance productivity (pg. 75)	<ul style="list-style-type: none"> - increase funding for contractors to invest in productivity - enhancing capital improvements - train and assist contracting officers and program managers to implement productivity improvements - encourage allowance of accelerated depreciation for defence contractors - provide more up front funding for innovations and practical projects 	\$1.5 billion	(A)	<ul style="list-style-type: none"> - can't estimate savings that would accrue from proposal - may widen defence base - accelerated depreciation increases cost by lowering tax revenues 	Increase budgets	DRIF - Defence Industry Productivity Program
Consolidate or close bases and/or base activities (pg. 78)	<ul style="list-style-type: none"> a) appoint an independent commission to realign bases or have DoD assess bases 	\$2.7 billion	(A)	<ul style="list-style-type: none"> - no specifics of which bases to close although GAO/CBO believe substantial savings could be realized - impact on local economies unknown - impact on military preparedness unknown 	Executive Branch initiative required	National Defence
		(R): Impact of recommendations can't be estimated with available information.				
		(A): Commission recommendations not sufficiently specific for GAO/CBO to estimate impact.				

Review of Major Grace Commission Recommendations - National Defence

Estimated Savings - 3 Years

Title of Recommendation	Description	Grace Commission	GAO/CBO	Comments - CBO/GAO	Implementation	Applicability to Canada
Improve Automated Inventory Management (pg. 82)	<ul style="list-style-type: none"> - modernize the data processing system for logistics and make compatible across services 	\$7.4 billion	(A)	<ul style="list-style-type: none"> - no specific details provided - part of the problem is high error rate in inventory records; GAO believes obsolete inventory management should be replaced; correct management weaknesses first 	- Administrative	- ac- National Defence
Change Physical Inventory Management (pg. 83)	<ul style="list-style-type: none"> - DoD currently counts inventory on a statistical basis - commission proposes a one time all inclusive count of DoD supply facilities subsequently control using optical barcode scanners - use economic order quantities and determine the essentiality of items 	\$4.5 billion	(A)	<ul style="list-style-type: none"> - unable to estimate potential savings; cost of count would be high - unable to estimate potential savings of using EOQ's 	- Administrative	- ac- National Defence

(A): Commission recommendations not sufficiently specific for GAO/CBO to estimate impact.

Review of Major Grace Commission Recommendations - National Defence

Estimated Savings - 3 Years

Title of Recommendation	Description	Grace Commission	GAO/CBO	Comments - CBO/GAO	Implementation	Applicability to Canada
Improve Management of DoD Laboratories (pg. 89)	<ul style="list-style-type: none"> - improve planning, monitoring, management and coordination of data exchange for R&D between services to reduce duplication and improve productivity 	\$1.6 billion	(A)	<ul style="list-style-type: none"> - Commission based on 5% of laboratory costs - difficult to attribute savings to particular planning improvements - early GAO studies indicated effective information transfer between labs. 	<ul style="list-style-type: none"> - Administratively 	National Defence
Improve DoD long-range planning and management for research and development (pg. 91)	<ul style="list-style-type: none"> - establish goals on national defence priorities, strategies, planning procedures, long-range planning for budgeting and operational management and introduce multi-year budgeting 	\$6.1 billion	(A)	<ul style="list-style-type: none"> - Commission savings of 2.5% for management improvements and 5% for long-range improvements - CBO/GAO unable to confirm the order of magnitude of savings 	<ul style="list-style-type: none"> - Current authority exists 	National Defence

(A): Commission recommendations not sufficiently specific for GAO/CBO to estimate impact.

Review of Major Grace Commission Recommendations – National Defence

Estimated Savings – 3 Years

Title of Recommendation	Description	Grace Commission	GAO/CBO	Comments – CBO/GAO	Implementation	Applicability to Canada
Reduce DoD oversight of Contractors' independent Research and Development costs (pg. 93)	<ul style="list-style-type: none"> - rely on competitive market forces to control costs - eliminate prior approvals, expenditure ceilings and review processes 	\$0.3 billion	(A)	<ul style="list-style-type: none"> - eliminates 1200 oversight jobs; but degree of competitiveness in defence industry is questionable - CBO believes savings would be offset by increases in contractors charges 	Legislative action	National Defence
Revise DoD Financial Accounting and Management (pg. 95)	<ul style="list-style-type: none"> - shift Congressional focus from an obligation basis to an accrued expenditure basis - use accrual accounting - change appropriations structure to combine all operating expense appropriations - have a system that focuses on the total operating expense of each organizational unit 	\$1.2 billion	(A)	<ul style="list-style-type: none"> - Commission estimated 1% of total operating expenses - GAO/CBO unable to find basis for assumptions - changes would require major changes in DoD operating, cost, budgeting and accounting systems 	Legislation budgeted	National Defence
	Less duplication and over lays	- \$16.2 billion	-			
	Net Saving	<u>\$94.1 billion</u>	<u>\$9.2 billion</u>			

Area Summary

Social Development

The Grace Commission recommendations applicable to the Canadian Social Development envelope can be classified as follows:

- limiting the growth of health care and other social program costs;
- increased monitoring of an individual's right to qualify for various benefits; and
- reduced student aid programs.

The Commission has made a number of recommendations to reduce health care costs including placing a cap on the growth of health care costs equal to the growth in Gross National Product, changing the manner in which food stamp allowances are calculated, reducing the overlap between the food stamp and school lunch programs, negotiating a fixed price for medicaid reimbursements rather than based on cost, increased cost recovery for medical care by the Veterans Administration (VA) and the Indian Health Service, stop building VA hospitals and convert acute care facilities to extended care, eliminate excess hospital capacity and improve planning and resource allocation for VA hospitals. The Grace Commission estimates the three year savings from these recommendations at \$4.5 billion.

The Commission assigns the greatest savings (\$28.9 billion) to limiting the growth of health care costs to the rate of growth in GNP. This proposal would presumably result in a shift of the financial burden to beneficiaries. Similarly the food stamp and school lunch proposals would result in reduced payments to those near the poverty line. The GAO/CBO believes the savings from cost recovery is limited because those able to pay for care are not served at these facilities. Savings are possible from converting VA acute care facilities to extended care facilities.

The Commission has recommended that lending institutions spread out student loan payments over the school year, that students be charged an increased initiation fee for a student loan and that the student loan programs be consolidated. The Commission estimates three year savings at \$2.8 billion. The GAO/CBO estimate of savings for these programs is \$2.3 billion. These recommendations will likely have the effect of reducing the student loan funds available.

The last major group of recommendations affecting social development require increased review and monitoring of eligibility for benefits including social security disability claims, increased enforcement of social security earnings limits, co-ordination and automation of state welfare data, improved income verification for means tested programs and improved verification of eligibility for housing. The Commission estimates these savings at \$13.2 billion over three years. The GAO/CBO estimate of three year savings is \$3.1 billion.

The GAO points out that much has already been done to reduce abuse of these programs. Much of the information needed for income verification will result in a loss of privacy to the individuals involved and may interfere with their rights.

In addition to the areas described above the Commission recommends reducing the deficit of the corporation that insures pensions and improved management of the Social Security Administration.

Many of the programs reviewed by the Commission have counterparts in Canada. However many of the recommendations are not relevant to the Government of Canada, either because the program is run provincially in Canada or because the principle of universality applies in Canada. The effect of most of these Commission recommendations would be to reduce the benefits to recipients.

Review of Major Grace Commission Recommendations - Social Development

Estimated Savings - 3 Years

Title of Recommendation	Description	Grace Commission	GAO/CBO	Comments - CBO/GAO	Implementation	Applicability to Canada
Limit Growth in Health Care Costs to GNP growth (pg. 107)	<ul style="list-style-type: none">- from 1975 to 1983 health care costs rose annually at 14% while GNP grew only 10%- Commission proposal is to limit growth to GNP and distribute to regions on a per capita basis- private sector, state and local health care systems would submit competitive bids to provide services	\$28.9 billion	\$3.9 billion	<ul style="list-style-type: none">- CBO/GAO anticipate two years delay to implement (effect to 1989 is same as PPS5CC estimate)- effect on beneficiaries is not known - presumably shift of financial burden or reduced level of care- GAO feels this proposal should be delayed while other methods are attempted	Legislation	<ul style="list-style-type: none">- Health and Welfare - Health and Social Services Program
Revise the Family Make-up for the Thrifty Food Plan (pg. 110)	<ul style="list-style-type: none">- allowances for food stamps are based on the cost of a nutritious meal for a family of 4- Commission proposes using a more individualized system for giving allotments	\$3.4 billion	\$1.5 billion	<ul style="list-style-type: none">- reduce maximum allotment and benefits for households- likely administratively burdensome and prone to errors- GAO believes change is needed but recommends a different approach	Legislation	<ul style="list-style-type: none">- Health and Welfare - provincial governments
Reduce Food Stamp - Child Nutrition Overlap (pg. 114)	<ul style="list-style-type: none">- when calculating eligibility for food stamp benefits the government should subtract the value of free school lunches given to children	\$1.7 billion	\$1.5 billion	<ul style="list-style-type: none">- average reduction across families with school age children would be between \$7.50 to \$11.25 per month per child- controversial item that should be studied more to include other overlaps		<ul style="list-style-type: none">- Health and Welfare - provincial governments

Review of Major Grace Commission Recommendations - Social Development
Estimated Savings - 3 Years

Title of Recommendation	Description	Grace Commission	GAO/CBO	Comments - CBO/GAO	Implementation	Applicability to Canada
Require Multiple Disbursements of Guaranteed Student Loans (pg. 121)	- do not allow lenders to disburse funds in a lump sum but rather spread out over the school year	\$1 billion	\$0.2 billion	- may reduce lenders yield and thus availability of funds; effect probably small	Legislation	Secretary of State - Education Support Program
Increase Initiation Fee on Guaranteed Student Loans (pg. 123)	- double the fee charged students when they receive a guaranteed loan	\$1.6 billion	\$0.9 billion	- difference in assumed loan volumes - reduce amount available to students	Legislation	Secretary of State - Education Support Program
Eliminate Federal Subsidy for Railroad Retirement Windfall Benefits (pg. 125)	- reduce subsidy to those eligible for both social security and railroad benefits - annual appropriation given to raise railroad retirement benefits	\$1.2 billion	\$1 billion	- reduce annuities by \$1,100/year for 370,000 annuitants and survivors	Legislation	Not Applicable
Tighten Social Security Disability Claims Process (pg. 128)	- for disability insurance and supplemental security income only allow appeal, after denial, when new evidence is presented - decrease number of individuals receiving benefits	\$3.6 billion	\$2.4 billion	- effects those receiving Medicare and Medicaid as well; CBO estimates fewer new claimants denied but greater cost savings from the elimination of current recipients - may conflict with current legislation affecting rights to appeal	Legislation	Health and Welfare - Income Security Program

Review of Major Grace Commission Recommendations - Social Development

Estimated Savings - 3 Years

Title of Recommendation	Description	Grace Commission	GAO/CBO	Comments - CBO/GAO	Implementation	Applicability to Canada
Reduce the Deficit for the Pension Benefit Guaranty Corporation (pg. 132)	<ul style="list-style-type: none"> - ensures that all subscribers to private pension plans receive annuity benefits even if the plans terminate - rates are not currently high enough to be self-financing - five proposals: <ul style="list-style-type: none"> - increase premiums from \$2.60 to \$6.00 per participant - reduce initial period for collection - reduce corporations' liability through special assessment - contract out for services - develop a risk-rated premium structure 	\$3.7 billion	\$2.3 billion	<ul style="list-style-type: none"> - increased premium has merit to cover programs claims and administrative costs - special assessment hurts newer funds more than older funds - risk-related premiums would provide more equitable funding - accelerating cash flows unnecessary - use of private insurers has merit 	Legislation	Finance - Pension Benefits Standards Acts
Require Prospective Payment Systems for Medicaid Hospital Reimbursements (pg. 138)	<ul style="list-style-type: none"> - Reduce in patient expenditures: - negotiate fixed price rather than cost based rates for services - encourage hospitals to set rates that apply to both government and private insurers 	\$0.5 billion	\$0.1 billion	<ul style="list-style-type: none"> - minimal impact because most states now use fixed price 	Legislation	Health and Welfare - Health and Social Services Program - provincial governments

Review of Major Grace Commission Recommendations - Social Development

Estimated Savings - 3 Years

Title of Recommendation	Description	Grace Commission	GAO/CBO	Comments - CBO/GAO	Implementation	Applicability to Canada
Improve Enforcement of Social Security Earnings Limit (pg. 140)	- create competitive forces for public and private health care	\$0.5 billion	0	<ul style="list-style-type: none"> - savings possible in future years - much overpayment error has already been reduced - requires modern computer not available until 1989 	Administrative	Health and Welfare - Income Security Program
	For long-term care: - require pre-screening and case management to participate in community-based service programs	\$0.5 billion	0			
	- tighten enforcement of earnings tests to reduce overpayments - more emphasis on collection of overpayments including interest	\$4 billion	0			
Co-ordinate and Automate State Welfare Data (pg. 142)	- federal government has given aid to automate other state programs	\$1.4 billion	(C)	- likely reduce administrative costs and slightly reduce program error	Administrative	Health and Welfare - Income Security Program

(C): Savings estimated at less than \$50 million

Review of Major Grace Commission Recommendations - Social Development

Estimated Savings - 3 Years

Title of Recommendation	Description	Grace Commission	GAO/CBO	Comments - CBO/GAO	Implementation	Applicability to Canada
Improve Income Verification in Means Tested Programs (pg. 144)	<ul style="list-style-type: none"> - require states to collect quarterly data on wages to use in Unemployment Insurance, Food Stamp, Aid to Families and Child Support Enforcement programs - permit disclosure by Social Security and IRS of income - require Social Security nos. and income tax returns for eligibility - use wage data to review the performance of housing managers 	\$2.3 billion	\$0.7 billion	<ul style="list-style-type: none"> - actual savings is uncertain - administrative costs of implementation would be significant - extensive income verification is already done - loss of privacy for individuals - risk of improper disclosures - CBO believes savings will be only 15% to 50% of PPSGCC estimate 	Legislative & Administrative	<ul style="list-style-type: none"> - Canadian Employment and Immigration Commission - Health and Welfare - Income Security Program
Refine Veterans Administration (VA) Response to Guaranteed Loan Foreclosures (pg. 148)	<p>When a guaranteed home loan is foreclosed the VA can:</p> <ul style="list-style-type: none"> - pay off the guaranty or - reimburse the lender's losses in exchange for title and then resell the house. <p>Proposal - reduce maximum bid allowed by lender to encourage third parties to bid on the house</p>	\$0.2 billion	\$0.3 billion	<ul style="list-style-type: none"> - effect on veterans is minimal - lenders would incur higher costs 		Veterans Affairs

Review of Major Grace Commission Recommendations - Social Development
Estimated Savings - 3 Years

Title of Recommendation	Description	Grace Commission	GAO/CBO	Comments - CBO/GAO	Implementation	Applicability to Canada
Produce Errors in VA Claims Processing (pg. 151)	- improve system to process claims in order to prevent errors, detect errors and eliminate errors	\$1.5 billion	(B)	- not possible to determine savings from current information		Veterans Affairs
		\$0.2 billion	\$1.2 billion		Legislation	Secretary of State - Education Support Program
Consolidate the Department of Education's Student Loan Programs (pg. 175)	- consolidate direct loan programs with guarantees to reduce administrative costs and because guarantees are more cost effective	a) \$0.2 billion	a) (A)	- eliminates ability of students to borrow supplemental funds - loan capital to lower income students would likely be reduced	Legislation	- Veterans Affairs - Indian Affairs and Northern Development - Health and Welfare - Medical Services
Increase Cost Recovery for Medical Care by Veterans Administration and Indian Health Service (pg. 190)	a) - adopt Medicare hospital and physician reimbursement rates	a) \$0.2 billion	a) (A)	- VA and Indian health are exploring fee per ailment rather than cost based	Legislation	
	b) - contract with fiscal intermediaries to process hospital and physician claims	b) \$0.7 billion	b) Ø	- PPSSCC has greatly overestimated the current cost of processing		
	c) - eliminate clauses in health insurance contracts excluding the federal govt from cost recovery - means test veterans without service connected disabilities	c) \$1.8 billion	c) \$0.8 billion	- those able to pay are denied access to VA facilities; only savings are from closing down facilities		

Review of Major Grace Commission Recommendations - Social Development

Estimated Savings - 3 Years

Title of Recommendation	Description	Grace Commission	GAO/CBO	Comments - CBO/GAO	Implementation	Applicability to Canada
Phase Out VA Health Care Facility Construction (pg. 193)	Stop constructing new nursing home facilities; a) convert available acute-care beds to extended care b) contract out	\$1.3 billion	\$0.3 billion	- use of acute care beds should meet all of the required need for extended care facilities		Veterans Affairs
Eliminate Excess Hospital Capacity (pg. 196)	a) close and convert underutilized hospitals and reduce reimbursement for inappropriate hospital stays b) limit Medicare reimbursement when hospital occupancy falls below 85%, establish maximum interest rate on hospital borrowing, and limit "certificate of need" approvals	a) \$0.9 billion	a) 0 b) (A)	a) no savings because prospective fee structure requires Medicare to pay fixed fees b) unable to estimate savings	Legislation	- Veterans Affairs - Health and Welfare - Health and Social Services Program and Medical Services - provincial governments
Improve Planning and Resource Allocation in VA Hospitals (pg. 198)	c) replace tax exempt hospital bonds with tax exempt state and local governments - use a resource allocation model to determine short term budgetary needs and for long-range planning to reduce average stay and increase occupancy rate to 80%	c) \$0.7 billion	c) (A)	c) unable to estimate savings	Administrative	Veterans Affairs

Review of Major Grace Commission Recommendations - Social Development

Estimated Savings - 3 Years

Title of Recommendation	Description	Grace Commission	GAO/CBO	Comments - CBO/GAO	Implementation	Applicability to Canada
Improve Verification of Applicants' Eligibility for Housing (pg. 241)	<ul style="list-style-type: none"> - Department's Inspector General indicates significant numbers of tenants who occupy gov't assisted dwellings are ineligible - use computer matching to review all available data on applicant's income - better train local managers - closely monitor local officials 	\$1.9 billion	0	<ul style="list-style-type: none"> - no. of eligible households far exceeds no. of units; ineligible tenants would be replaced with eligible tenants 	Legislation	Canadian Mortgage and Housing Corporation
Improve Social Security Administration Management (pg. 287)	<ul style="list-style-type: none"> - new management system to improve productivity by 50% - base on daily work plans, production goals, close monitoring and reduced work forces per supervisor 	\$1.3 billion	\$0.1 billion	<ul style="list-style-type: none"> - PPSSCC estimates a work force reduction of 18,000 - CBO estimates productivity increase of only 11% because PPSSCC estimates are based on only 1 type of activity - GAO concurs that systems improvement and standardization is required 	Administrative	Health and Welfare - Income Security Program
Total Estimated Savings for 3 Years - Social Development		<u>\$69.4 billion</u>	<u>\$17.1 billion</u>			

Area Summary

Economic Development

The major Grace Commission recommendations potentially affecting the Economic Development envelope are in the following areas:

- changes in lending practices to the private sector;
- changes in the management of natural resources;
- changes in legislation affecting the benefits of federal contractors and subcontractors; and
- miscellaneous recommendations affecting specific programs.

The suggested changes in lending practices include replacing direct loan programs with loan guarantees, raising interest rates on government loans, and applying market practices to direct federal lending. The Commission estimates that savings from these recommendations will total \$7.4 billion over 3 years. The CBO/GAO estimates the savings at \$24.2 billion primarily because of abolition of all direct lending programs.

These changes would have a negative impact on many of the high risk beneficiaries of the programs. Many Canadian government programs offer direct loans to businesses and individuals.

Grace Commission recommendations affecting the management of natural resources include improvements in the acquisition of petroleum for the strategic reserve, improved management of outer continental shelf oil and gas leasing, improving the cash management of timber sales and increasing revenues from the sale of power from federal dams. The Commission estimates savings of \$421.3 billion from these recommendations with \$17.1 billion from power marketing. The GAO/CBO estimate of 3 year savings is \$2 billion. The power marketing and strategic petroleum reserve recommendations are not applicable to Canada.

The Commission made three recommendations reducing the benefits paid to employees of federal contractors or subcontractors. These recommendations would produce 3 year savings of \$11.7 billion according to the Commission. The GAO/CBO estimate of savings is \$2.4 billion. The Canadian Fair Wages and Hours of Work Act contains similar provisions.

In addition to the above recommendations the Commission recommends reducing the size of dairy product inventories, consolidation of federal highway programs, charging user fees for non-emergency Coast Guard services and improving the management of research and development. Similar institutions exist in Canada.

Review of Major Grace Commission Recommendations - Economic Development

Estimated Savings - 3 Years

Title of Recommendation	Description	Grace Commission	GAO/CDO	Comments - CBO/GAO	Implementation	Applicability to Canada
Reduce Commodity Credit Corporation In-ventures (pg. 117)	a) require a % of coupons issued under the food stamp program be used to buy dairy products bought by the Corporation;	a) \$0.4 billion	a) \$0.3 billion	a) will increase administrative costs but should lower the amount of price supported dairy products in inventory; - effect on nutrition of recipients is unknown.	legislation	- Agriculture - Canadian Commission Dairy
	b) expedite the disposal of products for foreign aid.	b) \$1.4 billion	b) 0	b) Would seriously affect other objectives such as foreign policy and humanitarian objectives; much of this product is not suitable for foreign disposal. - reimbursements are intergovernmental; transfers not savings. - will increase accountability.	administrative	- Agriculture - Canadian Commission Dairy
Eliminate Donations from the Commodity Credit Corporation to other Agencies (pg. 136).	- recover donations of price supported commodities to be reimbursed by recipients such as prisons, the VA, the Food and Nutrition Service and foreign recipients.	\$1.2 billion	0	- reimbursements are intergovernmental; transfers not savings. - will increase accountability.	administrative authority	- Agriculture - Canadian Commission Dairy
Replace Direct Loan Programs with Loan Guarantees (pg. 169).	- convert direct loan programs under small Business Administration and the Farmer's Home Administration to loan guarantees. - reduce guarantees from 90% to 75%.	\$1.8 billion.	\$23.4 billion.	- new firms would be negatively affected by conversion to guarantee (SBA). - many applicants would not meet criteria. - subsidy to new home buyers would be eliminated.	legislation	- Department of Regional Industrial Expansion (DRIE) - Farm Credit Corporation (FCC) - Export Development Corporation (EDC) - Federal Business Development Bank (FBDB) - CMHC

Estimated Savings - 3 Years

Title of Recommendation	Description	Grace Commission	GAO/CBO	Comments - CBO/GAO	Implementation	Applicability to Canada
Consolidate Federal Highway Program Categories (pg. 200).	<ul style="list-style-type: none"> - consolidate federal highway programs and eliminate special purpose programs; - turn over administrative and operating responsibility to the states; - provide multi-year funding and allow states to shift funds among uses. 	\$1 billion	\$0.1 billion	<ul style="list-style-type: none"> - much of PSSCC saving comes from reduced funding for highway/railroad grade crossings; - CBO cannot determine if consolidation would produce savings; - considerable consolidation has already taken place. 	legislation	<ul style="list-style-type: none"> - Transport - Surface Administration Works - - Public Transportation and Other Engineering Program
Improve Procurement Policies for the Strategic Petroleum Reserve (pg. 202).	<ul style="list-style-type: none"> - exempt from requirement to carry fuel on U.S. ships; 	a) \$0.2 billion	\$0.2 billion	<ul style="list-style-type: none"> - cargo preference may effect national security or alternative maritime subsidies. 	legislation	Energy, Mines and Resources - Energy Program
	<ul style="list-style-type: none"> - operate on a government-owned, contractor operated basis; 	b) (C)	unknown			
	<ul style="list-style-type: none"> - don't acquire certain items and have facilities built on a fixed price basis; 	c) \$0.1 billion	0	<ul style="list-style-type: none"> - no plans to purchase equipment now. 		
	<ul style="list-style-type: none"> - reduce fill rate to avoid interim storage. 	d) \$1 billion	0	<ul style="list-style-type: none"> - already done. 		

(C): Estimated savings less than \$50 million

Review of Major Grace Commission Recommendations – Economic Development

Estimated Savings – 3 Years

Title of Recommendation	Description	Grace Commission	GAO/CBO	Comments – CBO/GAO	Implementation	Applicability to Canada
Improve Timber Sales Cash Management (pg. 205).	<ul style="list-style-type: none"> - require a flat payment schedule on timber contracts rather than based on removal of timber from the forest. 	\$0.5 billion	\$0.6 billion	<ul style="list-style-type: none"> - average contract bids will likely be lower with accelerated payments because of reduced flexibility for timber purchasers; - Forest Service now requires an initial 10% deposit and 25% by midpoint of contract; - implementation inappropriate (GAO). 	administratively	Environment – Forestry Service
Improve Management of Outer Continental Shelf Oil and Gas Leasing Program (pg. 209).	<ul style="list-style-type: none"> - companies currently offer upfront payments and a % of future production; - Commission proposes study of alternative bidding systems and reducing leases from 10 years to 7 years; - move leasing arrangements to off-budget. 	\$0.4 billion	0	<ul style="list-style-type: none"> - Administration is exploring alternative bidding methods; - Commission didn't specify extent of experts - estimate of savings is arbitrary. 	legislation	Energy, Mines and Resources – Energy Program

Review of Major Grace Commission Recommendations - Economic Development

Estimated Savings - 3 Years

Title of Recommendation	Description	Grace Commission	GAO/CBO	Comments - CBO/GAO	Implementation	Applicability to Canada
Impose User Fees for Certain U.S. Coast Guard Services (pg. 212)	<ul style="list-style-type: none"> - change fees for Coast Guard Services for identifiable groups of commercial shoppers and recreational boaters (e.g., search and rescue, aids to navigation, ice breaking, etc.); - transfer non-life threatening search and rescue to private sector. 	\$1.6 billion	\$2.2 billion	<ul style="list-style-type: none"> - CBO uses different assumptions; - impact on recreational boaters would be minimal; impact on commercial operators much more significant; - GAO endorses recommendations. 	legislation	Transport - Coast Guard
Reduce Costs of Power Marketing Administrations (pg. 213).	<ul style="list-style-type: none"> a) require power marketing agencies to repay federal investments or a timely basis at market rates; b) change a user fee for water used to produce electricity; c) sell power marketing agencies to non federal entities. 	\$19.1 billion	\$1.2 billion	<ul style="list-style-type: none"> - administrations currently being charged 3%; - higher interest rates and user fees would generate significantly greater revenue; - sale of facilities would involve considerable difficulty and would take at least 5 years; - price of electricity would increase under all proposals. 	legislative and administrative	Not Applicable
Increase Private Participation in the Uses of Space (pg. 221).	<ul style="list-style-type: none"> - obtain private financing for a possible 5th space orbiter. 	\$1.5 billion	0	<ul style="list-style-type: none"> - no savings because NASA currently is reimbursed for all commercial launches. 	legislation	National Council Research

Review of Major Grace Commission Recommendations – Economic Development

Estimated Savings – 3 Years

Title of Recommendation	Description	Grace Commission	GAO/CBO	Comments – CBO/GAO	Implementation	Applicability to Canada
Report or Modify Davis Bacon Act (pg. 223).	<ul style="list-style-type: none"> - Abolish act establishing minimum prevailing wage rates on fringe benefits to be paid by contractors engaged in federal construction work greater than \$2,000 or; - increase threshold to construction greater than \$1 million; - define prevailing wage to mean range of wages within a local area; - allow unlimited use of semi skilled workers; - allow submission of weekly compliance statement in lieu of payroll records; - set rates for rural areas separately from nearby metropolitan areas. 	\$5 billion	\$1.5 billion	<ul style="list-style-type: none"> - would result in reduced cost for federal construction; - GAO supports recommendation. 	legislation	Labour – Fair Wages and Hours of Work Act

Review of Major Grace Commission Recommendations - Economic Development

Estimated Savings - 3 Years

Title of Recommendation	Description	Grace Commission	GAO/CHO	Comments - CBO/GAO	Implementation	Applicability to Canada
Repeal or Modify the Service Contract Act (pg. 226).	<ul style="list-style-type: none"> - extends labour standards protection to contractors and sub-contractors providing services to the federal gov't; Repeal or: <ul style="list-style-type: none"> - cover contracts only greater than \$100,000; - incorporate maximum wage in law; - narrowly define "prevailing" and locality; - remove requirement for a contractor succeeding a prior contractor to match wage rates; - eliminate comparison with federal wage comparison. 	\$3.3 billion	\$0.1 billion	<ul style="list-style-type: none"> - effect would be to lower wage rates to service workers; - GAO supports repeal. 	legislation	Labour - Fair Wages and Hours of Work Act
Repeal or Modify Walsh-Healy Public Contracts Act (pg. 230).	<ul style="list-style-type: none"> - Act provides minimum benefits for workers employed on federal contracts greater than \$10,000 for materials supplies or equipment; - Repeal and abolish overtime provision of another act. 	\$3.4 billion	\$0.8 billion	<ul style="list-style-type: none"> - drops contract costs; places unionized firms at a disadvantage. 	legislation	Labour - Fair Wages and Hours of Work Act
Improve Research and Development Management (pg. 243).	<ul style="list-style-type: none"> a) implement a strategic planning process for R&D to establish specific goals, projects and time guidelines; 	a) \$3.2 billion	(A)	<ul style="list-style-type: none"> a) PPSSC estimated 5% of total civilian R&D funding could be saved; 	a) administration	<ul style="list-style-type: none"> - National Research Council - Energy, Mines and Resources - Fisheries and Oceans

(A): Recommendation is not sufficiently specific to estimate impact.

Review of Major Grace Commission Recommendations - Economic Development

Estimated Savings - 3 Years

Title of Recommendation	Description	Grace Commission	GAO/CBO	Comments - CBO/GAO	Implementation	Applicability to Canada
	b) make budgetary changes to obtain multi-year funding, short budget preparation and reduced technical staff.	b) \$1.6 billion	(A)	b) PPSSC estimates 2.5% of civilian R&D spending could be saved; - GAO supports both recommendations.	b) legislation	- Agriculture - National Defence
	Total Estimated 3 year Savings - Economic Development	<u>\$52.3 billion</u>	<u>\$31.2 billion</u>			

(A): Recommendation is not sufficiently specific to estimate impact.

Area Summary

Government Operations

The Grace Commission recommendations that would apply to the Departments in the Government Operations envelope are largely in 3 areas:

- changes in public service management and compensation;
- changes in tax policy and administration; and
- improved cash management.

Major Grace Commission recommendations would reduce the pay and benefits of current and retired public servants. These include reduced pensions, reduced disability benefits, changes in health benefits, more comparability between civil service and private sector wages, abolition of thousands of middle management positions, increased contracting out and productivity and reduced annual leave benefits. In all the Grace Commission estimates that these reforms would result in net savings of \$74.6 billion over 3 years with reduced pension benefits accounting for \$30 billion of the potential savings. The GAO/CBO estimates 3 year savings totaling \$7.5 billion with pension savings making up \$6.4 billion of this.

In terms of compensation the GAO/CBO believe that the Grace Commission has greatly overestimated the gap between public service and private sector wages particularly in light of recent caps on federal wage increases. The

GAO/CBO state that savings from productivity increases and reclassification are possible but that the Grace Commission has been overly optimistic in estimating the timing and amount of such savings. The GAO also disputes the Grace Commission estimates of the difference between public service and private sector pensions.

Changes in tax policy and administration include using income tax refunds to offset debts owed the federal government, taxing federal subsidies, indexing federal highway taxes to inflation, limiting the use of tax exempt bonds, augmenting IRS staff who collect delinquent taxes and examining tax returns and accelerating the collection and deposit of social security, income taxes, alcohol and tobacco taxes and custom duties. The Grace Commission estimates these recommendations will result in increased savings and revenues of \$77.5 billion over 3 years. The CBO/GAO analysis estimates these savings will total \$17 billion over 3 years.

Taxing federal subsidies is the most controversial item in this group. The GAO is particularly concerned about the effect of this recommendation on lower income groups. However, many studies have indicated that there is a much broader potential tax base than is currently being exploited. The GAO supports the remaining tax recommendations but believes that the Commission estimates are overly optimistic and that there will be opposition from groups affected by accelerated tax collections.

The last major group of recommendations calls for better cash management. In addition to the recommendations affecting the collection of

income taxes the Commission recommends increased use of credit bureaux and private sector collection agencies, charging interest and penalties on delinquent debt, improving credit processing and debt collection management, encouraging use of electronic transfer of federal funds, making timely payments for procurement and grant programs and accelerating the deposit of federal receipts through automatic account withdrawals, lock boxes and electronic means. The Commission estimates that these recommendations will result in savings of \$9.3 billion over 3 years. The GAO/CBO believe that the potential savings are overestimated but that many are valid.

Recommendations related to improved debt collection interest and penalties on delinquent debt and more timely federal payments have already been implemented. The remaining recommendations have some merit but the GAO believes that further study on the cost-effectiveness and impact is required.

Two other Commission recommendations are to sell unneeded public land and reduce the size of the government vehicle fleet. The GAO believes that the Commission has greatly overestimated the size of the savings from these recommendations.

On the surface many of the Commission's recommendations appear applicable to Canada. Depending upon the condition in Canada many of the tax and cash management recommendations could be implemented in Canada if the appropriate departments undertook the initiative. The public service compensation recommendations would likely be very difficult to implement because of the collective bargaining ability of Canadian public servants.

Estimated Savings - 3 Years

Title of Recommendation	Description	Grace Commission	GAO/CBO	Comments - CBO/GAO	Implementation	Applicability to Canada
Use IRS Refund Offsets to Increase Collection of Delinquent Debt (pg. 178).	- use tax refunds to collect delinquent non tax debts; - used effectively and economically by 17 states.	\$0.4 billion	\$0.8 billion	- agencies would have to undertake collection efforts before referral to IRS; - only about 2% of those receiving re-funds would be affected.	legislation	Revenue Taxation Canada -
Increase Debt Collection through outside efforts (pg. 181).	- when non tax debt cannot be collected refer debt to credit bureaux and private sector collection agencies; - allow IRS to disclose debtor's addresses.	\$0.3 billion	already implemented	- legislation has already been passed to this effect and thus no additional savings are foreseen.	legislation	Treasury Board
Charge Interest and Penalties on Delinquent Debt (pg. 183)	- interest and penalties are now allowed but not applied because of inadequate accounting systems or inadequate standards.	\$1.1 billion	already implemented	- already implemented under new Debt Collection Act.	legislation	Treasury Board
Improve Credit Processing and Federal Debt Collection Management (pg. 188)	- establish a central credit department in each agency; - develop uniform credit definitions; provide incentives to individuals and agencies to improve collections; - improve management information systems and records; - improve training.	\$2.2 billion	(B)	- PPSSCC estimates are probably too optimistic; - tighter debt collection may conflict goals of some agencies (e.g., Small Business Administration).	administratively	Treasury Board
		(B):	Budgetary impact cannot be estimated with available information			

Review of Major Grace Commission Recommendations - Government Operations

Estimated Savings - 3 Years

Title of Recommendation	Description	Grace Commission	GAO/CBO	Comments - CBO/GAO	Implementation	Applicability to Canada
Sell Unneeded Public Land (pg. 207).	- accelerate current program to sell surplus land.	\$1 billion	\$0.1 billion	- in 1983 only 10,000 acres of land was sold; CBO anticipates an additional increment of 25,000 acres per year; PPSSC estimates 3.8 million acres would be sold over 3 years.	administrative	- Public Works - Environment - Parks
Encourage Electronic Transfer of Federal Funds (pg. 233);	- encourage direct deposit/electronic funds transfer to eliminate forgery, cheque theft and loss and improve timeliness.	\$0.6 billion	\$1.2 billion	- save 3 days interest by not mailing cheques; - many people oppose direct deposit.	legislation	Treasury Board Supply and Services
Reduce the Size of Government Vehicle Fleets.	- dispose of up to 200,000 of current 400,000 vehicles.	\$1.5 billion	\$0.3 billion	- buy fewer vehicles and use current vehicles more; increase average use from 12,200 miles to 15,000 miles/year; - negative impact on natural resource programs where vehicle use is limited by terrain; - GAO suggests better information is needed.	administrative	Treasury Board Supply and Services
Make timely Federal Payments for Procurement and Grant Programs.	a) vouchers submitted for payment should have due date marked and be paid on that date	\$1.3 billion	already implemented	- due dates already required on payment vouchers.		Treasury Board Supply and Services

Review of Major Grace Commission Recommendations - Government Operations
Estimated Savings - 3 Years

Title of Recommendation	Description	Grace Commission	GAO/CBO	Comments - CBO/GAO	Implementation	Applicability to Canada
Increase use of Performance Specifications for Federal Construction Projects (pg. 249),	<ul style="list-style-type: none"> - most federal contracts now specify materials and methods; - PPSSCC suggests more use of allowing contractors to use alternative to achieve specific standards of performance. 	\$1.3 billion	(B)	<ul style="list-style-type: none"> - CBO believes savings would be incurred through increased competition but cannot estimate by how much; - often difficult to set good performance specifications. 	administratively	Public Works Supply and Services
Upgrade obsolete Computer Hardware and Software Resources (pg. 247),	<ul style="list-style-type: none"> - study all major automated data processing systems for obsolescence; - use a variety of tools to improve hardware and software management; - increase by 8 fold the rate of computer systems acquisition. 	Hardware: \$3.4 billion Software: \$0.6 billion	(B)	<ul style="list-style-type: none"> - PPSSCC has likely greatly over estimated hardware savings; - high productivity gains very likely by using advanced software. 	administratively	Treasury Board Supply and Services
	<ul style="list-style-type: none"> b) ensure that states are not investing grant funds before disbursement; - amend the law to impose penalties on states that invest grant funds. 	\$1.1 billion	(A)	<ul style="list-style-type: none"> - program being implemented to monitor states; - electronic funds transfer will allow for timely payment. 		

(A): Recommendation is not sufficiently specific to estimate impact.

(B): Budget impact cannot be estimated with available information.

Review of Major Grace Commission Recommendations - Government Operations

Estimated Savings - 3 Years

Title of Recommendation	Description	Grace Commission	GAO/CBO	Comments - CBO/GAO	Implementation	Applicability to Canada
Reduce Civil Service Retirement Benefits (pg. 239).	<p>For all federal workers:</p> <ul style="list-style-type: none"> - calculate benefits on 5 year salary; - alter the reduction penalty for early retirement because of layoffs and spousal annuities; - increased minimum years of service for a deferred pension from 5 years to 10 years; <p>For current workers under age 45:</p> <ul style="list-style-type: none"> - increase retirement age from 55 to 62 with a reduction for early retirement; - reduce the rate that determines pension; - require participation in Social Security; <p>For current and future retirees:</p> <ul style="list-style-type: none"> - reduce post-retirement cost of living adjustments; - offset civil service retirement with Social Security; - eliminate crediting years of military service toward civilian retirement; - eliminate benefits to annuitants' survivors who are students between ages 18 and 22. 	\$30 billion	\$6.4 billion	<ul style="list-style-type: none"> - PPSSCC includes the present value of future cost reductions; - PPSSCC claims that this will bring civil service pensions more in line with the private sector - GAO feels it will reduce civil service pensions below; - CBO states that retirement costs private employers 22.8% of pay and federal government 25.8% of pay; - 1.8 million retirees would receive much lower pensions; - GAO opposes whole package, disputes Commissions claim of 18% disparity and points out problems with vested property rights. 	legislation	Treasury Board PCO

Review of Major Grace Commission Recommendations – Government Operations

Estimated Savings – 3 Years

Title of Recommendation	Description	Grace Commission	GAO/CBO	Comments - CBO/GAO	Implementation	Applicability to Canada
Change Civil Service Retirement Accounting and Investment Practices (pg. 263).	<ul style="list-style-type: none"> - federal agencies do not cover the full cost of retirement benefits; - increase contribution of agencies to reduce Treasury share; - invest retirement funds in top-grade corporate bonds rather than Treasury securities (eventually place 25% of funds in AAA bonds). 	no estimate	\$5.6 billion	<ul style="list-style-type: none"> - accounting changes would reduce reported deficits; - agency contributions would increase from 7% to 19%; - increase in Postal Service rate would reduce indirect federal subsidy - increase postage rates; - shifting to AAA bonds may have a major effect on money market and incur higher risks. 	legislation	Treasury Board Comptroller General
Restrict short-term and long-term disability benefits for Federal Employees (pg. 266).	<ul style="list-style-type: none"> - restrict accumulation of sick leave to 130 days; - no longer increase retirement benefits by unused sick leave; - restrict long term disability to those unable to perform job rather than their current job; - pay long-term disability only after 5 months of disability. 	\$3.7 billion	\$0.4 billion	<ul style="list-style-type: none"> - PPSSCC estimates government would save 1 sick day per employee per year; - pension benefits would be reduced as would long term disability; - PPSSCC proposals fall short of private sector comparability; - PPSSCC capping proposal may encourage more workers to take annual entitlement. 	legislation	Treasury Board

Review of Major Grace Commission Recommendations - Government Operations

Estimated Savings - 3 Years

Title of Recommendation	Description	Grace Commission	GAO/CBO	Comments - CBO/GAO	Implementation	Applicability to Canada
Modify Federal Employees Health Benefit Programs (pg. 269).	<ul style="list-style-type: none"> - Commission recommends bringing program more in line with private sector; Proposals: <ul style="list-style-type: none"> - eliminate 75% cap on federal contributions to employee health plans; - amend eligibility criteria; - change cost allocation; - obtain bids on a government-wide basis; - adjust premiums based on geographic differences; - limit no. of health maintenance organizations in each area; Use biennial enrollment cycle, explore alternatives and give better information to participants. 	\$1.4 billion	<ul style="list-style-type: none"> - \$0.5 billion 	<ul style="list-style-type: none"> - CBO believes reduced government contributions would be more than offset by administrative expenses and lifting the ceiling on agency contributions; - PPSSC didn't take into account differences in income, occupation and characteristics; - GAO points out that federal government share in these programs is 4.3% of pay, average in private sector is 5.3%; - GAO is not convinced of cost-effectiveness of proposals. 	legislation and administration	Treasury Board

Review of Major Grace Commission Recommendations - Government Operations

Estimated Savings - 3 Years

Title of Recommendation	Description	Grace Commission	GAO/CBO	Comments - CBO/GAO	Implementation	Applicability to Canada
Return Process for determining Pay Comparability adjustments for federal blue-collar employees (pg. 273).	<p>make federal pay policy conform more closely to private sector;</p> <ul style="list-style-type: none"> - reduce from 5 to 3 the number of steps within each grade; - expand wage surveys to include state and local governments not for profit organizations; - repeal act requiring the federal pay rates consider data from outside the area; - determine night shift and overtime pay in accordance with local practice. 	\$1.8 billion	- \$0.9 billion	<ul style="list-style-type: none"> - prior to 1978 federal employees were overpaid by about 8% versus non-federal employees; - since then limits on federal pay have left civil service behind; - implementation would in fact require a catch up provision; - GAO supports plan. 	legislation	Treasury Board
Return Process for Determining Pay Comparability Adjustments for Federal White Collar Employees (pg. 275).	<ul style="list-style-type: none"> - establish rates using local prevailing rates rather than nationally; - expand no. of grade levels; - use a biennial rather than annual private sector survey; - survey state, local governments, not for profit organizations and small employers; - include more job categories in comparison. 	\$4.1 billion	(C)	<ul style="list-style-type: none"> - CBO calculates that comparability would require a 21% catch-up for civil servants; - administrative costs would increase to implement PPSSCC proposals; - GAO supports PPSSCC refinements. 	legislation	Treasury Board

(C): Impact is less than \$50 million

Review of Major Grace Commission Recommendations - Government Operations

Estimated Savings - 3 Years

Title of Recommendation	Description	Grace Commission	GAO/CBO	Comments - CBO/GAO	Implementation	Applicability to Canada
Change Grades of General Schedule Employees (pgs. 27/8).	<ul style="list-style-type: none">- accelerate efforts to reduce agency overgrading of positions;- abolish many middle management positions (GS 11 to 15).	\$5.2 billion	\$0.4 billion	<ul style="list-style-type: none">- CBO estimates 8% reduction in middle management grades to lower positions;- PPSSCC assumes jobs are eliminated;- impact could be lowered morale and difficulty in hiring qualified personnel;- GAO agrees in principle but believes PPSSCC comparisons may be non-representative.	administrative	Public Commission Service
Step up Federal Contracting to for Support Services (pgs. 28/1).	<ul style="list-style-type: none">- Commission recommends more emphasis on private contractors for support services including maintenance, security and data processing.	\$7.4 billion	\$0.2 billion	<ul style="list-style-type: none">- CBO believes Commission includes much double counting and ignores statutory limitations on contracting out;- conversion would take longer than PPSSCC estimates;- as many as 165,000 federal jobs would shift to private firms.	legislation	Treasury Board

Review of Major Grace Commission Recommendations - Government Operations
Estimated Savings - 3 Years

Title of Recommendation	Description	Grace Commission	GAO/CBO	Comments - CBO/GAO	Implementation	Applicability to Canada
Improve Federal work Force Productivity (pg. 283).	<p>Make organizational changes:</p> <ul style="list-style-type: none"> - institute a unit to provide technical support; - establish an office to set policy guidelines, prepare plans and offer assistance to agencies; - have GAO review agency office-automation; - establish an organization in the office of Management and Budget for productivity management; - resume use of incentive awards, training performance evaluations and other techniques. 	\$17.1 billion	\$0.5 billion	<ul style="list-style-type: none"> - CBO estimates total 4 year productivity gains of 11.6%; - CBO estimates lower savings from office automation, lower productivity gains and more gradual gains; - reduce employees by 65,000 (4.3%); - morale could be hurt and current restrictions on equipment purchases reduced flexibility; - GAO endorses office automation. 	legislation and administration	Treasury Board

Review of Major Grace Commission Recommendations - Government Operations

Estimated Savings - 3 Years

Title of Recommendation	Description	Grace Commission	GAO/CBO	Comments - CBO/GAO	Implementation	Applicability to Canada
Improve Productivity of Federal Maintenance Personnel (pg. 290).	increase output per worker of those who maintain, repair and do alteration construction of federal real property; - create central productivity groups within each agency; - use incentives to improve management; - hire management consultants; should result in 48% increase in productivity.	\$1.1 billion	(C)	- CBO estimates based on gradual introduction with all units meeting national average; - GAO agrees productivity improvement possible - could mean reduction of 6,500 blue-collar jobs; - PPSSCC estimates 24,000 less jobs.	administrative	Public Works
Reduce Paid Annual Leave Benefits for Federal Employees (pg. 292).	- require employees to work 180 days before getting annual leave; - decrease leave available (except for those employed more than 25 years); - no more carry over of annual leave.	\$3.8 billion	\$0.9 billion	- PPSSCC estimates a decline of 1.5% in work force due to reduced use of leave; - GAO believes that there are not significant differences between public and private sector hours of work; - many employees would get less leave but would use it all due to forfeiture provision; - GAO does not support these proposals.	legislation	Treasury Board

(C): Impact is less than \$50 million

Review of Major Grace Commission Recommendations - Government Operations

Estimated Savings - 3 Years

Title of Recommendation	Description	Grace Commission	GAO/CBO	Comments - CBO/GAO	Implementation	Applicability to Canada
Tax Federal Subsidies (pg. 303).	<ul style="list-style-type: none"> - place income tax on virtually all federal subsidy programs to individuals and business; - granting agencies would issue information slips; - PPSSCC believes programs have been subject to poor targeting and coordination. 	\$58.9 billion	\$7 billion	<ul style="list-style-type: none"> - PPSSCC savings overstated due to overestimation of those receiving benefits, overestimation of overlapping benefits, overestimation of applicable tax rate and not recognizing time required to implement. - other studies indicate that a much broader tax base exists than is currently used; - effect of training business subsidies can't be estimated. 	legislation and much study to determine all potential effects.	Canada - Revenue Taxation
Index Federal Highway Taxes to Inflation (pg. 308).	<ul style="list-style-type: none"> - ensure that the highway program will have sufficient purchasing power to prevent erosion. 	\$2 billion	\$0.5 billion	<ul style="list-style-type: none"> - legislation already has increases built in that will exceed inflation rate. 	legislation	Canada - Revenue Taxation
Limit the Use of Tax Exempt Revenue Bonds for Private Purposes (pg. 310).	<ul style="list-style-type: none"> - permit tax exemptions only for bonds backed by full faith of city, country or state; - set ceilings on volume of tax exempt bonds that can be issued; - ensure that certain financial criteria be met. 	\$5.2 billion	\$3.2 billion	<ul style="list-style-type: none"> - PPSSCC doesn't recognize revenue loss would continue on outstanding bonds; - interest on general state and local bonds may decline; change may result in a more productive use of capital. 	legislation	Not Applicable

Review of Major Grace Commission Recommendations – Government Operations

Estimated Savings – 3 Years

Title of Recommendation	Description	Grace Commission	GAO/CBO	Comments – CBO/GAO	Implementation	Applicability to Canada
Increase Railroad Retirement Tier 2 Payroll Contributions (pg. 315).	<ul style="list-style-type: none"> - raise by 4% the payroll contributions that fund additional railroad benefits; - law has already been passed to improve the position. 	\$1.4 billion	already implemented	<ul style="list-style-type: none"> - changes already in place to enact improvements. 	legislation	Not Applicable
Improve Federal Tax Administration (pg. 315).	<ul style="list-style-type: none"> - augment IRS staffing to collect delinquent taxes and examine tax returns (hire 2,500 staff); - accelerate the disposition of tax cases before the Tax Court; - establish a tax board to settle litigation less than \$10,000. 	\$10 billion	\$3.7 billion	<ul style="list-style-type: none"> - much of the gain comes from increased compliance; - CBO savings from the tax board are only 1/8 of PPSSCC saving (\$5.5 billion vs. \$4 billion); - increase % of tax returns reviewed from 1.3% to 1.8%; - GAO supports more effort on examinations and collections. 	legislation	Revenue Taxation Canada -
Accelerate Payments of Withheld Social Security Taxes by State and Local Governments (pg. 318).	<ul style="list-style-type: none"> - require states to submit Social Security taxes at the same frequency as private employees. 	\$0.4 billion	\$0.8 billion	<ul style="list-style-type: none"> - some action has already been taken to accelerate payments; - costs to state and local governments would increase. 	legislation	Revenue Taxation Canada -
Accelerate Deposits by IRS Service Centers (pg. 320).	<ul style="list-style-type: none"> - restructure work flows at processing centers to accelerate tax deposits by 1 day during peak periods. 	\$0.2 billion	(C)	<ul style="list-style-type: none"> - CBO believes only savings would be from interest saving; - IRS plans to undertake a test. 	administrative	Revenue Taxation Canada -

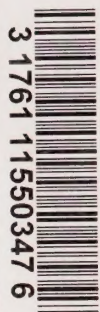
(C): Impact is less than \$50 million

(P): Budget impact cannot be estimated with available information.

Review of Major Grace Commission Recommendations - Government Operations
Estimated Savings - 3 Years

Title of Recommendation	Description	Grace Commission	GAO/CBO	Comments - CBO/GAO	Implementation	Applicability to Canada
Extend Federal Tax Deposit System to Individual Estimated Tax Payments (pg. 326).	- require individuals who make quarterly tax payments to make such payments and their financial payments at institutions authorized to receive such payments (e.g., Federal Reserve Banks); - this would accelerate cash flow.	\$0.2 billion	\$0.2 billion	- accelerated payments would result in interest savings (deposits would speed up by 5 to 7 days).	regulation	Revenue Taxation Canada -
Accelerate Collection of Alcohol and Tobacco Taxes (pg. 328).	- require alcohol and tobacco taxes to be remitted by electronic funds transfer at the end and the 15th of each month.	\$0.3 billion	\$0.7 billion	- producers argue that their accounts receivable are on average 75 days old and that they would have to finance immediate tax payments.	regulations and legislation	Revenue Customs and Excise Canada -
Accelerate Collection of Customs Duties (pg. 331).	- require importers to pay duty immediately upon the release of goods rather than giving a 10 day grace period or; - assess interest on payments from date goods are released. Less Duplication for Federal Subsidies	\$0.1 billion	\$0.3 billion	- GAO concurs with this proposal.	regulations	Revenue Customs and Excise Canada -
	Total 3 year savings	<u>\$164.2 billion</u>	<u>\$31.8 billion</u>			

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